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C O N F I D E N T I A L SECTION 01 OF 02 PRETORIA 002983

SIPDIS

DEPT FOR E, P, EB/IFD/TFORSYTHE
ALSO AF/EPS, AF/S/BNEULING,KGAITHER
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TREASURY FOR OIA/OAN/JRALYEA,BCUSHMAN

E.O. 12958: DECL: 07/26/2015

TAGS: [EFIN](#) [ECON](#) [EAID](#) [CH](#) [ZI](#) [SF](#)

SUBJECT: SOUTH AFRICA FORMULATES BAILOUT PLAN FOR ZIMBABWE

REF: A. PRETORIA 2948

[1](#)B. PRETORIA 2854

[1](#)C. HARARE 1018

[1](#)D. HARARE 1009

Classified By: J. Jeff Hartley, Reasons: 12958 E.O. 1.4 (b) and (d)

[1](#)1. (C) Summary. The South African Presidency, the National Treasury, the Reserve Bank (SARB), and the Department of Agriculture are key players in putting together the bailout plan for Zimbabwe. The clear objective is to keep Zimbabwe from being expelled from the IMF. The National Treasury is looking at making an initial outlay of about \$100 million as a stopgap measure to help Zimbabwe with its arrears at the IMF. The total loan from South Africa to Zimbabwe could amount to \$500-600 million, to be paid out in tranches by the end of 2006. The National Treasury has led in the formulation of economic conditions that are generally supportive of IMF Article IV recommendations, but not as specific. They include initiating a market exchange rate, assuring independence for the central bank, and better management of the fiscal deficit. The Presidency authored the following political conditions: freedom of speech, independent media, independent judiciary, electoral reform, and assurance of property rights. The plan has not yet received South African ministerial approval. In general discussions last week, the Zimbabweans seemed unwilling to take advice from South Africa on economic reforms. The next South African-Zimbabwean ministerial should be within two weeks. End Summary.

[1](#)2. (C) Deputy Director Rosalind Mowatt from the Office of International Economics at the National Treasury (please protect) told Econoff on July 26 that her office had been working continuously on the Zimbabwean loan bail out plan for more than week. Besides the National Treasury, the Presidency, the Reserve Bank (SARB), and the Department of Agriculture were key players. Mowatt said that Zimbabwe would have to agree to a long list of conditions. The National Treasury led in the formulation of economic conditions, which were generally supportive of IMF Article IV recommendations, but not as specific. They included initiating a market exchange rate, assuring independence for the central bank, and better management of the fiscal deficit. The Presidency authored the following political conditions: freedom of speech, independent media, independent judiciary, electoral reform, and assurance of property rights. The National Treasury's Director General has reviewed the plan, but Finance Minister Trevor Manuel has not yet signed off. The Zimbabweans have not seen it. Mowatt believed that a South African-Zimbabwean ministerial meeting would have to be arranged within the next two weeks. The deadline for an approved, negotiated plan is the end of August, before the next IMF Board meeting.

[1](#)3. (C) South Africa's primary objective is to keep Zimbabwe from being expelled from the IMF. The National Treasury is looking at making an initial outlay of about \$100 million as a stopgap measure to help Zimbabwe with its IMF arrears (now over \$290 million). Around the time of the first tranche, the Presidency wants Zimbabwe to sign an international agreement and publicly commit to certain reforms, as a show of good faith. South Africa would then extend a total loan amount of \$500-600 million, to be paid out to Zimbabwe in tranches by the end of 2006. Besides helping Zimbabwe with its arrears to the IMF and other multilateral institutions, some of the money would go for agricultural inputs and for food.

[1](#)4. (C) Mowatt thought there was quite a lot of activity taking place at the highest levels concerning the bailout, but was not clear what the thinking was. As far as she knew, nothing had been discussed with the Zimbabweans so far. The National Treasury had been talking to the IMF, particularly the Head of the African Department, Mr. Bio-Tchane.

[1](#)5. (C) Mowatt said that in general discussions last week, the Zimbabweans were unwilling to take advice from South Africa on economic reforms. They really believed in their alternative strategy, using monetary policy "in all sorts of strange ways." For example, the Zimbabweans wanted funds for

subsidies and credits to certain sectors. They argued that they could bring inflation down to 30-40% without monetary reform, "which (was) not realistic," according to Mowatt. The fact that Mugabe took off to China did not appear to be helpful, and Mowatt wondered what the Zimbabweans would be able to get from the Chinese; was Zimbabwe mortgaging away its resources?

16. (C) Mowatt did not know when the next South African ministerial with the Zimbabweans would be, but believed that it had to be within two weeks. The bailout package needed to be completed before September, in time for the next IMF board meeting.

HARTLEY